FEB 1[illegible]

Sir:

Your office has requested the views of this Department on a draft bill, "To amend the Central Intelligence Agency Act of 1949, as amended, and for other purposes", which has been proposed by the Central Intelligence Agency.

Title II of the draft bill would remove certain CIA employees (apparently about 60 percent of the total) from the Civil Service Retirement System and place them under a new CIA retirement system corresponding to the more liberal Foreign Service Retirement and Disability System. While no criteria are contained in the bill, the justification states that the CIA personnel who would be designated by the Director of the CIA for coverage under the new system would be those (1) career employees whose duties are predominantly concerned with intelligence operations in foreign countries or covert support in the United States of such operations under comparable conditions, and (2) career employees with such specialized skills that they are placed at a special disadvantage when required to seek other employment.

Whatever the peculiar position of CIA personnel, there presumably are employees in other Government agencies who would qualify under these broad criteria. Moreover, it has been estimated that the Foreign Service Retirement System costs the Government more than twice as much per pay roll dollar as the Civil Service Retirement System. In these circumstances, we feel that liberalized retirement benefits should not be extended to more Federal employees without an overall review of all Federal positions and retirement systems with a view to developing more precise and universal standards which would bring about uniformity of treatment for retirement purposes between different classes of Government employees having comparable duties.

Should the proposal receive favorable consideration, however, the Department has the following further comments.

The Department questions whether the proposed retirement system should be independent. In the interests of efficiency and economy, it would [illegible] appropriate to have the plan administered under the Civil Service Retirement System or possibly under the Foreign Service [illegible] after which it is patterned. One of the reasons cited for an [illegible] system is improved [illegible]. In this connection, it should be observed that the present retirement program is administered by the

Civil Service Commission presumably without a significant affect on security. In fact, it would appear that more security problems than now exist are engendered by proposing an independent retirement system.

There have been conferences between representatives of this Department and the CIA with respect to changes in the fiscal provisions of the bill. Matters considered included the establishment and the operation of the fund in a manner which would prevent the identification of the fund and the disclosure of investment transactions for the fund. It was agreed that maximum security could not be assured if a separate account were established in the Treasury. There is attached a list of changes agreed upon as a result of such conferences.

As to the investment of the fund in a manner to provide maximum security, the Department suggests that the legislation provide for the payment of interest on balances in the fund directly out of CIA appropriations. This interest rate should be equivalent to the rate on special issues to the Civil Service Retirement Fund under the Civil Service Retirement Act, and be paid monthly on the average balance in the fund. The interest rate so determined would be equal to the average market yield, computed as of the end of the preceding calendar month, borne by all marketable interest-bearing obligations of the United States then forming a part of the public debt that are not due or callable until after the expiration of four years from the end of such calendar month, except that where such average market yield is not a multiple of 1/8 of one per centum, the rate of interest shall be the multiple of 1/8 of one per centum nearest such average market yield. This alternative would have the same security as present CIA appropriations.

With respect to the provision in the proposal which would provide a tax exemption for amounts received as a disability annuity, we do not believe that such a tax exemption should be requested at this time. One of the recommendations contained in the President's message relative to a revision of our tax structure is to repeal the present $100-a-week exclusion (contained in section 105(d) of the Internal Revenue Code) for wage continuation payments received by an employee from his employer. Except for the specific categories of disability payments enumerated in section 104(a)(4) of the Internal Revenue Code, disability annuities are presently exempt from tax under section 105(d) and would become taxable if the President's recommendation is adopted.

Therefore, as a general matter, it would not appear desirable for the Administration to be recommending an extension of the exemption in the case of disability payments going to certain Government employees while at the same time recommending that the exemption be completely removed in the case of disability payments under private plans and, for that matter, under the Civil Service Retirement Fund.

Sincerely yours,

(Signed) G. d'Andelot Belin

G. d'Andelot Belin
General Counsel

The Director

Bureau of the Budget